AR10

KeepRite

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OUR THIRTY-FOURTH ANNUAL REPORT

"Old enough to know – Young enough to grow"

KeepRite

DIRECTORS

F. STEWART BROWN
Brantford, Ontario

*JOHN G. EDISON, Q.C.
Toronto, Ontario

GERALD T. FENWICK
London, Ontario

*ROSS M. HANBURY
Toronto, Ontario

*J. GORDON McMILLEN
Brantford, Ontario

J. THOMAS McMILLEN
Brantford, Ontario

THEODORE E. RHENIUS
Brantford, Ontario

*JOHN O. TREPANIER, Q.C.
Brantford, Ontario

*Member of the Audit Committee

OFFICERS

J. GORDON McMILLEN
Chairman of the Board and
Chief Executive Officer

F. STEWART BROWN
President and
Chief Operating Officer

THEODORE E. RHENIUS
Vice President Finance
and Secretary-Treasurer

GERALD T. FENWICK
Vice President and General
Manager — Unifin Division

J. THOMAS McMILLEN
Vice President and General
Manager — Brantford Division

R. ROY BENNETT
Vice President and Director
of Manufacturing —
Brantford Division

H. ROBERT MUSSON
Vice President and Director
of Room Air Conditioner Group

REGISTRAR AND TRANSFER AGENTS

THE CANADA TRUST COMPANY
Montreal, Toronto, Winnipeg,
Calgary, Regina and Vancouver

SHARES LISTED

MONTREAL STOCK EXCHANGE
TORONTO STOCK EXCHANGE

AUDITORS

MILLARD, ROUSE AND ROSEBRUGH
Chartered Accountants
Brantford, Ontario

BANKER

CANADIAN IMPERIAL
BANK OF COMMERCE

COMPANY PLANTS AND OFFICES

HEAD OFFICE
44 Elgin Street, Brantford,
Ontario, Canada

PLANTS

Brantford, Ontario, Canada
London, Ontario, Canada
Lisbon, Ohio, U.S.A.

SALES OFFICES

Halifax, Montreal, Ottawa, Toronto,
Hamilton, London, Winnipeg, Calgary,
Edmonton, Vancouver

REPRESENTATIVES

Farmington, Conn., U.S.A
Atlanta, Ga., U.S.A.
San Francisco, Cal., U.S.A.
Stafford, U.K.

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Financial Highlights

	Year ended December 31st 1978	1977
SALES	$55,276,563	$53,845,490
Net Earnings	$ 2,957,443	$ 3,250,883
Per share	$ 1.46	$ 1.61
Cash dividends paid	$ 1,523,997	$ 860,097
Number of Shareholders*	895	955
Number of shares outstanding*	2,019,181	2,022,631
Number of people employed*	787	687
Salaries, wages and employee benefits paid for our people	$13,477,743	$13,010,204
Value of assets employed	$30,293,103	$30,294,742
Working Capital	$13,243,041	$12,670,780
Long term Debt	$ 45,399	$ 1,061,847
Net Worth*	$17,513,873	$16,198,270

*At year end

Report of the Board of Directors

To Our Shareholders

In 1978 all segments of the Company's operations except sales of Canadian room air conditioners showed some growth. This was as predicted in our 1977 report. Export sales were particularly strong reflecting the favourable effect of the devalued Canadian dollar, and our increased sales activity in the export field.

However, earnings for the year were affected by the results in the first quarter. In this quarter, we experienced a substantial reduction in shipments compared to the same period in 1977 which resulted in a drop in earnings. This can be attributed, for the most part, to a 35% decline in the room air conditioner market in Canada in 1977 which materially affected production levels through the first quarter of 1978.

Operations for the balance of 1978 returned to more normal levels and a modest growth in sales and earnings was experienced. However, we were unable to overcome the effect of the first quarter results.

During the year, stringent control on expenditures was maintained which helped to offset the continuing inflation of the cost of materials, components, services, wages and salaries.

Sales and Earnings

Sales for 1978 were $55,276,563, an increase of 2.7% over 1977. Net earnings of $2,957,443 represent a decrease of 9.0% from 1977. This is equivalent to $1.46 for Class B and/or Class C share compared to $1.61 last year.

Financial Position

1978 ended on an uptrend with shipments in December reaching an all-time high for the Company. Accounts receivable were lower than a year ago at $12,117,650. In anticipation of higher production levels in the first quarter of 1979 inventories increased over last year to $13,013,320. Accounts payable were $5,601,487 compared with $3,430,133 at the end of 1977.

In 1978, we reduced our long-term debt by $1,016,448.

In addition to payment of the regular quarterly dividend, special and extra dividends of 40 cents on Class B shares and 35.8 cents on Class C shares

were paid in the last quarter to take advantage of certain provisions in the Income Tax Act which terminated on December 31st, 1978.

The working capital ratio increased to 2.1. Cash flow was $4,101,689 in 1978, 35.8% of which was reinvested in the business compared with 69.7% in 1977. The main reason for the difference was a substantial reduction in long term debt and payment of extra dividends at year-end. Capital expenditures for fixed assets and tooling were $896,969.

Shareholders equity or net worth of your Company increased by $1,315,603 (8.1%) over 1977 after paying dividends of $1,523,997. The book value per share increased to $8.67 from $8.01.

Brantford Division

The Canadian economy continued to be weak in 1978 which together with the not too optimistic economic forecasts and continuing high interest rates have limited capital investment in the commercial and industrial sector. Despite these factors, shipments of refrigeration and commercial air conditioning products showed reasonable growth in 1978, largely as a result of effective extra sales effort to improve market penetration.

Shipments of room air conditioners to our Canadian customers in the first six months of 1978 were down considerably from the corresponding period in the previous year. This was, as mentioned earlier, a reflection of the substantial decline in the Canadian market in 1977 attributable to unfavourable weather and economic conditions. The Canadian market improved somewhat in 1978 and this will be reflected in 1979 shipments.

The impact of the drop in shipments to the Canadian market was largely offset by good gains in export markets. The devalued Canadian dollar has helped to make our products more competitive in foreign markets and KeepRite, being an established, substantial exporter, is in excellent position to take advantage of the improved export environment.

We continue to commit substantial funds to the development of, and tooling for, improved quality and/or cost reduction of our products. In 1979, we embarked on a major Material Resource Planning (MRP) program. This is a computer-based system which provides for a master data bank from which we can control inventory, scheduling and facilities planning. The potential advantages in inventory cost reduction, improved reliability of delivery, and increased production capacity are substantial. We will start to realize the benefits late in 1979.

The KeepRite residential heat pump was introduced to the Canadian market in 1978. Results to date have been disappointing. The Canadian market has not grown as rapidly as expected. Energy costs have not risen as fast in Canada as elsewhere and this, combined with the severe climatic conditions in Canada, make the economics of a heat pump installation in Canada less attractive than in the U.S.A. There is no doubt that the heat pump principle will have increasing application in all aspects of heating and air conditioning in the future and KeepRite will continue its development and marketing of heat pumps and heat pump versions of its products.

Unifin Division

The demand for Unifin industrial heat transfer products continued to be good in 1978. After a lull that started late in 1977 and extended into early 1978, the tempo, assisted by the aggressive and sustained efforts of our sales organization, picked up considerably and results for 1978 were satisfactory.

The main thrust of Unifin's activity continues to be in the United States.A sales office was opened in San Francisco in 1978 to supplement the activities of the Hartford and Atlanta offices.

The devalued Canadian dollar, of course, has had a favourable effect. Because Unifin products are usually sold as part of major capital projects (such as power stations, pulp and paper mills, processing plants, etc.), it takes considerable time for the benefit of an improved market situation to show up as improved results. Unifin ended the year with a reasonable backlog of orders and expects another satisfactory year in 1979.

Cardinal Division
(The Cardinal Development Corporation)

The main products of Cardinal are oil-immersed pumps for the electrical industry. Demand for pumps improved modestly in 1978 over 1977. Improvements in plant productivity and better cost and price control were instituted during the year.

During 1978, Cardinal commenced machining transformer valve castings for one of its major customers. This will contribute to improved sales and earnings in 1979.

General Comment

Last year, we advised that we were reassessing your Company's strategy and plans for establishing manufacturing facilities outside Canada. During

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1978, we have considered several possibilities but we have not as yet completed an arrangement which meets our investment criteria. We are continuing our efforts in that direction.

The devalued Canadian dollar has given companies like KeepRite with high export orientation, added impetus, and while we are continuing to hope for an improved Canadian economy, we must also continue to look elsewhere for the long-term growth required to meet our aggressive corporate objectives.

Acknowledgements

We express our thanks and appreciation to the nearly 800 people on the "KeepRite Team" whose dedicated efforts in 1978 made the results we achieved possible.

We are also grateful to our many customers, our suppliers and our shareholders whose support is vital to our existence and progress. We are confident that the KeepRite Management Team will continue to strive for improved operating results to merit their confidence in the future.

Appointments

In 1979, in recognition of their important contribution to the progress of KeepRite and to reflect their management responsibilities, the following appointments were made:

Mr. T. E. (Theo) Rhenius
Vice President
(Finance and Secretary-Treasurer)

Mr. J. T. (Tom) McMillen
Vice President
(General Manager, Brantford Division)

Mr. G. T. (Gerry) Fenwick
Vice President
(General Manager, Unifin Division)

Mr. R. R. (Roy) Bennett
Vice President
(Director of Manufacturing, Brantford Division)

Mr. H. R. (Bob) Musson
Vice President
(Director of Room Air Conditioner Group)

Special Corporate Business

At the Annual and General Meeting the Shareholders will be asked to approve a Special Resolution passed by the Board of Directors authorizing the Corporation to apply for continuance under the Canada Business Corporations Act.

This proposed action follows the purchase by Odette Group Limited from Mr. J. Gordon McMillen and his associates of approximately 39% of the issued shares of the Corporation at a price in terms of cash and securities of approximately $15.75 a share.

If the proposed resolution is confirmed by the Shareholders, the Odette Group Limited will make an offer, subject to certain conditions, to purchase all the remaining shares of the Corporation for cash at a price of $16.00 a share. It is understood by the Corporation that the offer will be subject to the acceptance by the holders of 90% of the remaining shares.

The attention of Shareholders is directed to the Information Circular accompanying the Notice of Annual and General Meeting for a more complete description of the proposed Special Resolution and the effect of its passing on both the Corporation and the Shareholders.

The Future

We expect 1979 to be a better year for your Company than the past two years with a higher backlog of orders and heavier production schedules. Our expectations, however, are based more on export activities than on significant short-term improvements in Canada's economic health.

We have ambitious plans to continue the development and marketing of our products throughout the world. Constant attention to cost control is a basic part of our management philosophy.

It is our objective to build and maintain a strong management team that is capable of responding effectively to changing conditions and trends in the markets and economies we serve. We shall continue to maintain and increase our share of the markets we serve.

On behalf of the Board of Directors.

J. Gordon McMillen
J. Gordon McMillen,
Chairman of the Board and
Chief Executive Officer.

F. Brown
F. Stewart Brown,
President and
Chief Operating Officer.

March 9, 1979.

KeepRite

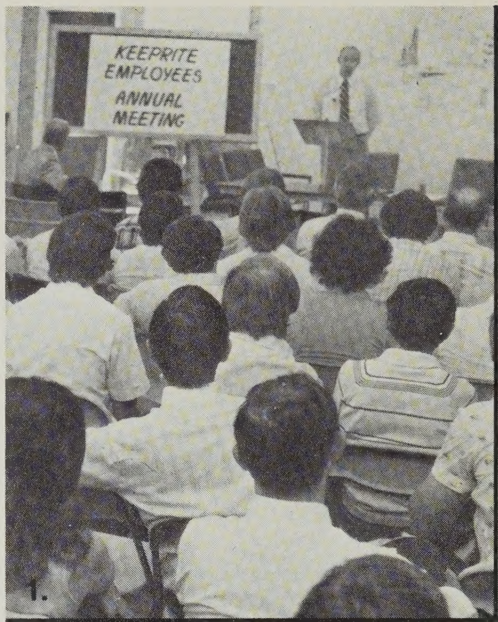
Profiles '78

Towards the end of 1977, KeepRite started the publication of a quarterly Company magazine called "KeeNotes". Our objective is to keep our people in touch with what is happening in the Company and give them the KeepRite news from Brantford, London (Ont.) and Salem (Ohio).

At the time of printing this Annual Report, KeeNotes was getting ready for its 7th quarterly issue.

In these two pages, we are offering a selection of 1978 news items, most of which appeared in the KeeNotes. We have endeavoured to keep the wording unchanged, as much as possible, in order to reflect the informal tone of "KeeNotes".

1. Annual meeting of employees at KeepRite, Brantford. A similar meeting was also held at Unifin, London. At these informal sessions, KeepRite people heard reports from President Brown and other executives.
2. This is Jim Pittman at Cardinal Division, Salem, Ohio, operating a 24″ vertical turret lathe. Jim is machining a 6″ axial-flow pump casting.
3. Unifin's Ken Renshaw won two different coloured shoes in a gag presentation at the Christmas party in London. Charlie Baxter, right, was M.C. with assistance from Fiona Richards.
4. United Way Silver Award — The fund drive at KeepRite Brantford was the most successful ever according to Chairman, Don Macaulay (front row, second left). Bob Taylor of United Way (front row, right) is seen here presenting the award to the committee.
5. KeepRite - Unifin at CEX '78. KeepRite takes an aggressive approach to developing new markets and industry trade shows represent a prime vehicle. In 1978 KeepRite was a leading exhibitor at the Canadian Environmental Exhibition in Toronto.
6. Dave Parker likes to keep busy on and off the job. A veteran welder at Unifin, Dave has 36 years experience with the Company. Dave Parker collects stamps, coins and takes pleasure in camping.
7. Bus loads of happy KeepRite people arrive at Crystal Beach for a day's fun and picnic. The picnic was sponsored by the Recreation Committee.
8. "Room Air Conditioners — Creations by KeepRite" is what it says on the sign at KeepRite's Brantford display room. Steve Webb (right) and Jim Harris are seen here doing a thermostat cycling test on a Room Air Conditioner unit.
9. Bill Haber shuttles tractor trailers from the Brantford plant to KeepRite's two warehouses. "I take the finished products over to the warehouse and return with a trailer full of materials for the production line," he says.
10. KeepRite golfers come to the fore at the annual tourney in Brantford. Marie Nichols and Joan Lapensee are seen here on the 8th green.
11. Jim Sutton, a maintenance man at KeepRite Unifin is also an accomplished photographer. A good many of his product pictures are used in Unifin's sales literature.



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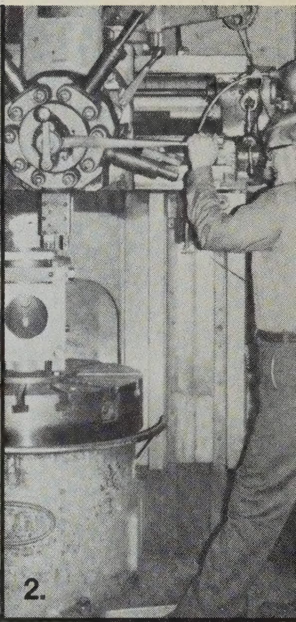
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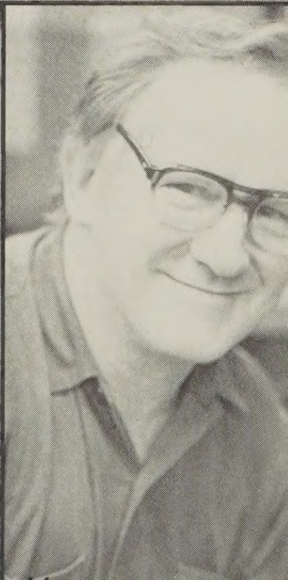

KeepRite

Consolidated Balance Sheet, as at December 31, 1978

(with comparative figures for 1977)

Assets

	1978	1977
CURRENT ASSETS:		
Cash on hand and in bank	$ —	$ 39,757
Accounts receivable after allowance for doubtful accounts	12,117,650	12,694,418
Inventories valued at lower of cost and net realizable value	13,013,320	12,122,902
Income taxes recoverable	—	25,678
Prepaid expenses	228,333	260,065
Total Current Assets	25,359,303	25,142,820
FIXED ASSETS:		
Land, buildings and equipment — at cost	9,212,055	8,763,164
Less: Accumulated depreciation	4,664,903	4,085,499
	4,547,152	4,677,665
OTHER:		
Advances to trustee under employee share purchase plan (Note 3b)	295,889	353,245
Unamortized excess of cost of shares over value of net assets acquired (Note 1)	90,759	121,012
	386,648	474,257
	$30,293,103	$30,294,742

Signed on behalf of the Board:

J. Gordon McMullen

H. Brown

See accompanying notes to Consolidated Financial Statements

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Liabilities

	1978	1977
CURRENT LIABILITIES:		
Bank indebtedness and acceptances (secured)	$ 5,476,858	$ 8,003,371
Accounts payable and accrued liabilities	5,601,487	3,430,133
Salaries, wages and commissions payable and payroll deductions to be remitted from employees' compensation	948,974	771,822
Income taxes payable	68,620	—
Current maturity on long term debt (Note 2)	20,323	266,714
Total Current Liabilities	12,116,262	12,472,040
DEFERRED INCOME TAXES (Note 1)	617,569	562,585
LONG TERM DEBT (Note 2)	45,399	1,061,847

Shareholders' Equity

	1978	1977
CAPITAL: (Note 3)		
Class B participating shares without par value Authorized: 2,500,000 shares Issued: 1,118,975 shares (at December 31, 1978)	195,828	206,719
Class C participating shares without par value Authorized: 2,500,000 shares Issued: 900,206 shares (at December 31, 1978)	157,543	172,481
Common shares without par value Authorized: 1,000 shares Issued: Nil	—	—
	353,371	379,200
RETAINED EARNINGS	17,160,502	15,819,070
	17,513,873	16,198,270
	$30,293,103	$30,294,742

See Accompanying Notes to Consolidated Financial Statements

KeepRite

Consolidated Statement of Income

	Year Ended December 31st	
	1978	1977
SALES	$55,276,563	$53,845,490
Cost of sales, selling, administrative and other expenses, exclusive of the items listed below	49,097,142	47,474,887
Depreciation and amortization	1,036,195	739,643
Interest on long term debt	95,783	163,077
	50,229,120	48,377,607
Net income for the year before taxes on income	5,047,443	5,467,883
Taxes on income	2,090,000	2,217,000
NET INCOME FOR THE YEAR	$ 2,957,443	$ 3,250,883
Basic earnings per share— Class B and/or Class C*	$1.46	$1.61

*Based on the weighted average of shares outstanding during the year.

See Accompanying Notes to Consolidated Financial Statements

Consolidated Statement of Retained Earnings

	Year ended December 31st	
	1978	1977
Balance — beginning of year	$15,819,070	$13,492,109
Add: Net income for the year	2,957,443	3,250,883
	18,776,513	16,742,992
Deduct:		
—Income tax paid on portion of 1971 undistributed income on hand to create tax paid surplus of $629,129	92,014	63,825
—Dividends declared		
• on class B shares (1978 — 80.0¢ per share: 1977 — 45.8¢)	894,762	498,155
• on Class C shares (from tax-paid surplus) (1978 — 69.8¢ per share; 1977 — 38.9¢)	629,235	361,942
• on Common shares	—	—
Total Dividends	1,523,997	860,097
Balance — end of year	17,160,502	15,819,070

See Accompanying Notes to Consolidated Financial Statements

Consolidated Statement of Changes in Financial Position

	Year Ended December 31st 1978	1977
SOURCE OF FUNDS:		
Net income from operations	$ 2,957,443	$ 3,250,883
Depreciation and amortization charged to operations	1,036,195	739,643
Increase in deferred income taxes	54,984	88,101
Total funds provided from operations	4,048,622	4,078,627
Issue of shares under employee stock purchase plan	—	68,310
Repayment on loan under employee stock purchase plan	31,527	—
Federal investment incentive tax credit on eligible assets acquired	21,540	43,784
	4,101,689	4,190,721
USE OF FUNDS:		
Income tax paid on portion of 1971 undistributed income on hand	92,014	63,825
Dividends declared and paid	1,523,997	860,097
Fixed assets purchased	896,969	1,067,882
Acquisition of subsidiary, less working capital at date of acquisition of $13,852	—	234,854
Advance made to trustee under employee share purchase plan	—	68,310
Payments on long term debt	1.016,448	277,633
	3,529,428	2,572,601
INCREASE IN WORKING CAPITAL	572,261	1,618,120
WORKING CAPITAL, BEGINNING OF YEAR	12,670,780	11,052,660
WORKING CAPITAL, END OF YEAR	$13,243,041	$12,670,780

See Accompanying Notes to Consolidated Financial Statements

KeepRite

Notes to Consolidated Financial Statements

Note 1: Accounting Policies

(a) The consolidated financial statements include the accounts of KeepRite Products Limited and its wholly-owned subsidiary, The Cardinal Development Corporation.

This subsidiary was acquired in 1977, and the results of its operations are included in the consolidated statement of income from that date.

The excess of cost of shares over value of net assets at the time of the acquisition was $151,265, which is being amortized over a five year period. The amount charged to income in 1978 is $30,253.

(b) Inventories are valued at the lower of cost and net realizable value with cost being determined substantially on a first in, first out basis.

(c) Fixed assets are stated at acquisition costs less federal investment incentive tax credit. Depreciation is provided on a declining balance basis, generally using rates of 5% for buildings and 20% for machinery and other equipment. Expenditure for dies, moulds and other toolage is depreciated 100% in the year of acquisition and the value is not included in asset values.

(d) All research and development costs, including costs of developing new products, changing existing products and pre-production costs, are expensed when incurred.

(e) Deferred income taxes represent the accumulated amounts of tax deferred in current and prior years through claiming for tax purposes capital cost allowance in excess of depreciation recorded in the accounts.

(f) Translation of foreign currencies — foreign currencies have been translated into Canadian dollars as follows: current assets and current liabilities at rates in effect at the end of the year; other balance sheet accounts and depreciation expense at exchange rates in effect at respective transaction dates; and, income and other costs at average rates during the year.

Note 2: Long Term Debt

On March 21, 1977 the subsidiary entered into a loan agreement with a U.S. bank. The principal amount of the loan was $87,898 U.S. ($89,480 Canadian) with payment terms of $1,800 U.S. per month including interest to March 21, 1982. The loan is secured by a chattel mortgage on equipment and the guarantee of the parent corporation. The principal balance due after one year amounts to $44,597 U.S. ($45,399 Canadian) at December 31, 1978.

Note 3: Capital

(a) The Class B shares and Class C shares are fully inter-convertible at the option of the holder at any time. The shares outstanding at the respective year ends are summarized in the table below:

	As at December 31, 1978	
	Shares	Amount
Class B Shares....	1,118,975	$195,828
Class C Shares....	900,206	157,543
Common Shares ..	Nil	Nil
	2,019,181	$353,371

	As at December 31, 1977	
	Shares	Amount
Class B Shares....	1,102,625	$206,719
Class C Shares....	920,006	172,481
Common Shares ..	Nil	Nil
	2,022,631	$379,200

(b) In 1975 the company established a share purchase plan for senior employees of the company as authorized by the shareholders' approval of special by-law No. 6 at the Annual and General Meeting on May 22, 1975. Under the plan, the company may advance up to $500,000 to a trust created for such employees to finance the purchase by the trustee of either Class B or Class C shares from the treasury of the company to a maximum of 4% of the outstanding shares of the company. The price at which such shares may be purchased is to be set by the Board of Directors with reference to current market prices. Funds advanced to the trustee bear interest at 6% and are repayable within five years. The trustee holds the shares as collateral security for the advances made by the company.

Shares are released to the employees as the related advances are repaid. The employees are individually liable for the amounts advanced to the trustee on their behalf; the obligation of the trustee to repay the advances is limited to amounts received from employees and proceeds realized on any sale of shares held as collateral.

During the year no additional advances were made or shares issued by the company to the trustee.

In accordance with the provisions of the share purchase plan, as a result of the termination of employment in 1978 of two employees, who were participants in the plan, the advances related to 3,450 Class B shares were cancelled and these shares were returned to the treasury of the company. The paid-up capital of the company has been reduced by $25,829 (1,950 shares at $5.63 per share and 1,500 shares at $9.90 per share) the amount at which the shares were issued.

Note 4: Directors' and Officers' Remuneration

The aggregate direct remuneration paid or payable by the company to 13 Directors and Senior Officers as defined by the Business Corporations Act was $529,772 for the year ending December 31, 1978.

Note 5: Unfunded Pension Benefits

The most recent independent actuarial reports indicate that the single-sum liability for unfunded past service pension benefits not provided for in the accounts at December 31, 1978 is approximately $163,133. These will be funded and charged to earnings over the next 15 years.

Note 6: Anti-Inflation Legislation

The company is subject to the Federal Anti-Inflation legislation which imposed restrictions on prices, profits, compensation and dividends. Management is of the opinion that the company has complied with all phases of the requirements and regulations of the legislation since October 14, 1975.

Auditors' Report

To the Shareholders
KeepRite Products Limited

We have examined the consolidated balance sheet of KeepRite Products Limited as at December 31, 1978 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

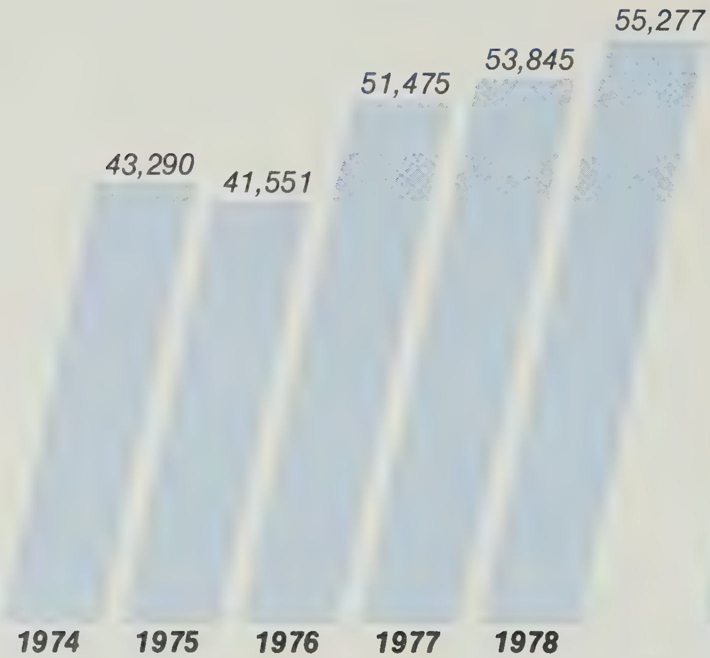
Brantford, Ontario
March 5, 1979

Millard, Rouse & Rosebrugh

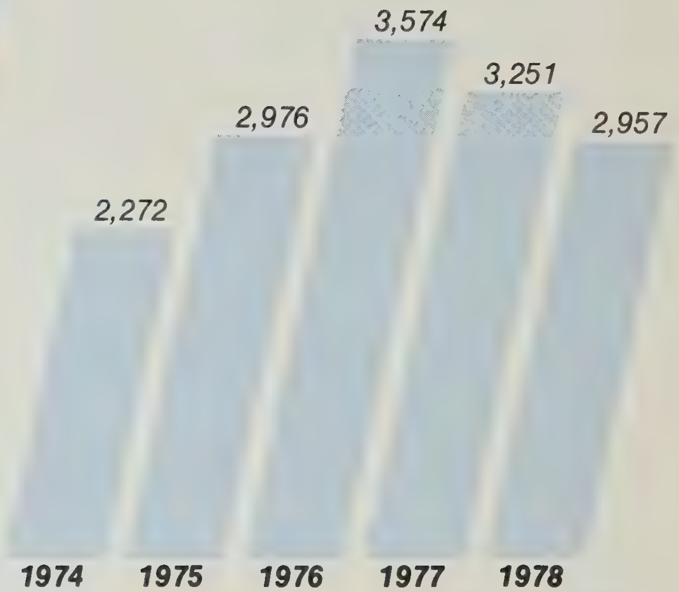
MILLARD, ROUSE AND ROSEBRUGH
Chartered Accountants

KeepRite

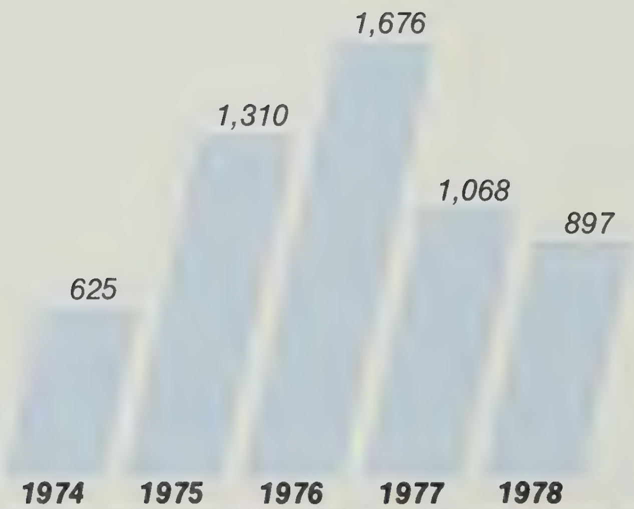
Five Year Comparisons



NET SALES
(in thousands of dollars)



NET INCOME AFTER TAXES
(in thousands of dollars)



NEW INVESTMENT IN FIXED ASSETS AND TOOLAGE (in thousands of dollars)

SHAREHOLDERS' EQUITY
(in thousands of dollars)

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Ten Year Summary of Financial Highlights

Operations: (in thousands of dollars)	**1978**	**1977**	**1976**	**1975**	**1974**	**1973**	**1972**	**1971**	**1970**	**1969**
Net Sales	**55,277**	53,845	51,475	41,551	43,290	31,546	26,866	22,798	22,444	18,855
Income before income taxes	**5,047**	5,468	6,195	5,181	3,931	2,650	2,750	2,262	1,755	1,639
Income taxes	**2,090**	2,217	2,621	2,205	1,659	1,109	1,288	1,142	918	853
Net income after taxes	**2,957**	3,251	3,574	2,976	2,272	1,541	1,462	1,120	837	786
Balance Sheet: (in thousands of dollars)										
Working capital	**13,243**	12,671	11,053	9,491	8,056	6,589	5,769	3,821	3,256	3,334
Fixed assets Net after depreciation	**4,547**	4,678	4,190	3,209	2,628	2,642	2,532	1,944	1,958	1,339
Yearly depreciation provided	**1,036**	740	624	691	639	416	479	365	362	336
Annual investment Fixed assets and toolage	**897**	1,068	1,676	1,310	625	526	1,067	352	980	443
Shareholders' equity	**17,514**	16,198	13,803	11,070	8,618	6,934	5,947	4,899	4,085	3,536
***Earnings Per Share**										
Class B and/or Class C	**1.465**	1.610	1.775	1.509	1.156	.784	.744	.570	.426	.400

*Adjusted to reflect the three for one subdivision of shares on May 1, 1969, and capital reorganization of August 23, 1972.

KeepRite

1978 Annual Report

KeepRite, an all Canadian company, is a leading manufacturer of refrigeration, air conditioning, heat transfer and heat recovery products. It has an outstanding record of profitable growth during nearly 34 years of operation. Its products are marketed extensively in North America and are exported to many countries throughout the world.

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interim report to shareholders

FOR THE SIX MONTHS ENDED
JUNE 30th
1978

KEEPRITE PRODUCTS LIMITED

KEEPRITE PRODUCTS LIMITED

TO OUR SHAREHOLDERS:

Sales for the first six months of 1978 were 8.8% lower than the same period last year. Net income for the period was $1,202,079. This represents earnings of 59.4¢ per share compared to 79.9¢ last year.

As anticipated, the results of the second quarter of 1978 represent a return to more normal levels after an unsatisfactory first quarter, and compare favourably with the second quarter of 1977. Sales at $17,216,675 and net income of $820,102 in the second quarter of 1978, were 4.6% and 6.3% higher respectively, than the corresponding period in 1977.

A more favourable economy in the United States has resulted in increased shipments of air conditioning and heat exchanger products. The devaluation of the Canadian dollar is also having a favourable effect on export shipments, particularly to Europe.

We are still affected by the lack of buoyancy in the Canadian economy. Inflation, which remains a factor in all our costs, makes it difficult to maintain margins. A.I.B. Regulations are restricting our flexibility in some pricing decisions.

Based on weather conditions to date and assuming reasonable economic levels for the balance of the year, results for the third and fourth quarters should compare favourably with last year.

At a meeting of the Board of Directors on August 17, 1978, the third quarter dividend of 10 cents per share on the Class B shares and 8.5 cents (tax deferred) on the Class C shares was declared. Both dividends are to be paid September 30, 1978 to shareholders of record September 18, 1978.

J. GORDON McMILLEN,
Chairman, Chief Executive Officer.

F. STEWART BROWN,
President, Chief Operating Officer.

August 17, 1978

comparative interim financial statement

(unaudited — subject to year-end adjustment)

consolidated statement of income

	Six months ended June 30	
	1978	**1977**
SALES	$29,898,085	$32,778,913
Cost of sales, selling, administrative and other expenses exclusive of items listed below	27,372,514	29,423,076
Depreciation	503,640	616,445
Interest on long term debt	64,403	72,709
	$27,940,557	$30,112,230
Net income for period before taxes on income	1,957,528	2,666,683
Taxes on income	755,449	1,055,990
NET INCOME FOR PERIOD	$ 1,202,079	$ 1,610,693
Period basic earnings per share — Net — Class B or C	59.4¢	79.9¢

consolidated statement of source and use of funds

	Six months ended June 30	
	1978	**1977**
SOURCE OF FUNDS:		
Net income from operations	$ 1,202,079	$ 1,610,693
Depreciation charged to operations	585,990	616,445
Total funds provided from operations	1,788,069	2,227,138
Increase in deferred income tax	—	12,150
Payment from trustee re share purchase plan	25,828	—
Proceeds of chattel mortgage at Cardinal	—	110,568
	$ 1,813,897	$ 2,349,856
USE OF FUNDS:		
Reduction of share capital	25,829	—
Payment of long term debt	6,578	—
Excess of purchase price over assets in subsidiary	—	145,603
Fixed assets purchased	252,560	622,305
Dividends paid	377,160	374,958
Taxes paid on undistributed income	27,375	28,125
Increase (decrease) in working capital	1,124,395	1,178,865
	$ 1,813,897	$ 2,349,856

N.B.: Statements include consolidation of subsidiary, The Cardinal Development Corporation.

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